



# *Auditor of State*

*Connie Kay Nass*

TELEPHONE (317) 232-3300  
FACSIMILE (317) 232-6097  
<http://www.ai.org/auditor>

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Governor,  
Members of the General Assembly,  
Citizens of the State of Indiana:

We are proud to present the Comprehensive Annual Financial Report (CAFR) for the State of Indiana's fiscal year ended June 30, 2000.

This Comprehensive Annual Financial Report has been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as prescribed in pronouncements by the Governmental Accounting Standards Board. Responsibility for both the accuracy of the data presented and completeness and fairness of the presentation rests with the state agencies that provide the data and are obligated to verify postings. We believe the information set forth in this report is accurate in all aspects and is presented in a manner designed to set forth the financial position and results of operations of the State as measured by the financial activity of its various funds.

This CAFR is presented in three sections: Introductory, Financial, and Statistical.

The Introductory Section includes this transmittal letter, a list of former Auditors of State, the Table of Contents, the Certificate of Achievement for Excellence in Financial Reporting Award, the State Organizational Chart, and a listing of Selected State Officials.

The Financial Section includes the auditors' reports, the general purpose financial statements, the combining and individual fund statements, and the account group statements and schedules.

The financial statements include all funds and account groups for which the State of Indiana is accountable, based on criteria for defining the financial reporting entity prescribed by the Governmental Accounting Standards Board. The criteria for inclusion are based on fiscal dependency, financial accountability, selection of governing authority and, ability to significantly influence operations. Based on these criteria, the various funds, account groups and entities shown in this report are considered as part of the reporting entity.

The Statistical Section includes selected financial and demographic information, generally presented on a multi-year basis.

## **ECONOMIC CONDITION AND OUTLOOK**

The economic forecast, upon which the state budget for fiscal years 2000-2001 was based, projected real GDP growth at 3.8% in 1999 followed by slower growth through the first half of 2000 before stabilizing at 2.9% through the remainder of the biennium. The forecast was updated in December, 1999 accounting for stronger than expected economic conditions. The December, 1999 update projected real GDP to increase at slightly more than 3% for the remainder of the biennium. Inflation was projected to increase slowly reaching 2% by the end of the biennium. The forecast was updated again in December, 2000 incorporating projections for a slowing of economic growth.

Real GDP increased by 4.2% in 1999, slightly more than the 4.0% projection contained in the December, 1999 update. Real GDP growth through the first half of 2000 has exceeded the projections contained in the December, 1999 update. Inventory accumulation accounted for a large part of the growth in real GDP during the second quarter of 2000 providing evidence that the U.S. economy began to slow in the second quarter. Third quarter growth slipped to 2.4% in real terms, well below the growth rate underlying the December, 1999 update.

The economic forecast, upon which the state budget for fiscal years 2000-2001 was based, projected personal income in Indiana to increase by 4.3% in 1999 with steady strengthening through the biennium. Personal income growth was projected to reach 5.0% at the end of the biennium. The December, 1999 update lowered projected personal income growth to 4.6% by the end of the biennium. The revenue forecast for FY 2001 was updated in December, 2000. For that update, projected personal income growth was lowered to 3.4% by the end of the year.

The economic forecast and the December update led to projected growth in General Fund (GF) and Property Tax Replacement Fund (PTRF) revenues of 3.3% in FY 2000 and 5.0% in FY 2001. GF and PTRF revenues increased by 2.9% in FY 2000. The December, 2000 update lowered projected GF and PTRF growth for FY 2001 to 2.7%.

Combined GF and PTRF spending for FY 2000 exceeded revenues. The same is expected for FY 2001. As a result, the combined GF and Rainy Day Fund balances and reserves are expected to decline to \$1,220.7 million on June 30, 2001.

## **MAJOR INITIATIVES**

**Higher Education** – The fall of 2000 marks the beginning of the new Community College of Indiana (CCI). Developed as a partnership between two existing institutions, Ivy Tech State College and Vincennes University, the CCI offers a range of general and technical courses to non-traditional and adult students at an affordable price. Scheduled to be fully implemented in six years at twenty-three sites around Indiana, the CCI will promote economic development and provide Indiana's students and workers with low-cost access to the training and education services they need.

**K12 Education** - Indiana has emerged as a national leader in the area of developing rigorous academic standards and utilizing them in a system of shared accountability. An independent body recently ranked Indiana's newly developed math and reading standards as among the best in the nation. Created by a bipartisan Education Roundtable comprised of representatives from both the public and private sectors, the standards will be implemented in a coordinated fashion, along with instructional curricula, materials, and evaluation.

**Public Safety** - Two major correctional facilities have recently been completed and opened. Miami Correctional Facility, Phase 1, opened June 1, 1999 and was \$4.2 million under budget and Pendleton Juvenile Correctional Facility opened July 1, 2000 and was \$7.2 million under budget. Currently under

construction are Miami Correctional Facility, Phase II, 1600 beds, and New Castle Correctional Facility, a special needs facility with 1868 beds.

**Transportation** - A major component of the Indiana Department of Transportation (INDOT)'s Capital Improvement Plan over the past four years has been the infusion of over \$564 million in the "Crossroads 2000" initiative. With funding plus all time highs in the return of Federal Highway funds from the Transportation Equity Act for the 21st Century (TEA 21), INDOT will have a record program that will average over \$700 million per year for this biennium.

**Public Health - Tobacco Use, Cessation and Prevention Board** - The State established an executive board to direct the distribution of \$35 million in grants to Indiana organizations for programs designed to prevent and stop tobacco use among Hoosiers.

**Public Health - Pharmacy Assistance Program** – The Governor's Advisory Committee has submitted recommendations to invest \$20 million tobacco funds appropriated by the legislature to assist low-income uninsured or underinsured seniors. Approximately 64,000 Hoosiers will qualify for pharmacy benefit under the proposed program to be implemented in early 2001.

**Public Health - Children's Health Insurance Program** - The Children Health Insurance Program is celebrating its 3rd year of operation. As of March, 2000 the number of enrolled children under the program was 330,324. The program is made more accessible through an aggressive outreach program and simplified enrollment process. The eligibility threshold has been increased covering children with family income at or above 200% of poverty.

## **FINANCIAL INFORMATION**

The State's system of internal accounting control is designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized user disposition and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of internal control should not exceed the benefits likely to be derived and that the evaluation of costs and benefits requires management to make estimates and judgments.

**Single audit** - As a recipient of federal financial assistance, the State is also responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to federal programs. This internal control structure is subject to periodic evaluation by management and internal audit staff of the various state agencies.

As part of the single audit, tests are made to determine the adequacy of the internal control structure, including that portion related to federal financial assistance programs, as well as to determine that the State of Indiana has complied with applicable laws and regulations.

**Budgetary Controls** - The annual budget for the State of Indiana is comprised of separate appropriations to individual cost centers within the General and Special Revenue funds. A cost center is a mechanism for recording financial activity. Budgetary control is exercised at the cost center level by appropriations and allotments of accounts. Purchase orders and warrants, which result in a deficit account balance, are not released until additional appropriations are made available or the deficit balance is properly authorized. Unencumbered appropriations lapse at the end of each fiscal year.

**Revenues** - The following schedule presents a summary of General and Special Revenue fund revenues for the fiscal year ended June 30, 2000 and the amount and percentage of increases and decreases in relation to prior year revenues (amounts expressed in thousands).

<u>Revenues:</u>	<u>Amount</u>	<u>Percent of Total</u>	<u>Increase (decrease) from 1999</u>	<u>Percent of Increase (decrease)</u>
Taxes	\$ 11,087,003	62.68%	\$ 278,215	2.57%
Licenses and permits	407,140	2.30%	23,059	6.00%
Current service charges	649,569	3.67%	104,699	19.22%
Investment income	504,728	2.85%	115,244	29.59%
Sales / rentals	66,655	0.38%	1,492	2.29%
Grants	4,741,471	26.81%	627,790	15.26%
Other	<u>230,840</u>	1.31%	<u>39,406</u>	20.58%
Totals	\$ 17,687,406		\$ 1,189,905	7.21%

Increased grant revenues were primarily due to increases in federal revenue for the Family and Social Services' Administration.

**Expenditures** - The following schedule presents a summary of General and Special Revenue fund expenditures, for the fiscal year ended June 30, 2000 and the amount and percentage of increases and decreases in relation to prior year expenditures (amounts expressed in thousands).

<u>Expenditures</u>	<u>Amount</u>	<u>Percent of Total</u>	<u>Increase (decrease) from 1999</u>	<u>Percent of Increase (decrease)</u>
General government	\$ 3,676,093	20.91%	\$ 406,017	12.42%
Public safety	989,994	5.63%	83,218	9.18%
Health	298,042	1.70%	(15,050)	-4.81%
Welfare	5,147,995	29.28%	401,827	8.47%
Conservation, culture, and development	479,806	2.73%	19,852	4.32%
Education	5,733,862	32.61%	358,331	6.67%
Transportation	1,253,852	7.13%	37,546	3.09%
Other	<u>1,083</u>	0.01%	<u>133</u>	14.00%
Totals	\$17,580,727		\$ 1,291,874	7.93%

Increased Welfare expenditures were primarily due to increased spending through the Family and Social Services' Administration's (FSSA) Medicaid Assistance fund and other FSSA programs.

**General Fund Balance** - The fund balance of the General Fund decreased by \$221.3 million during the fiscal year ended June 30, 2000.

**Proprietary Operations** - The State of Indiana's Enterprise Funds consist of: Inns and Concessions, Toll Bridges, Toll Roads, the State Lottery Commission and the Malpractice Insurance Authority. The Inns and Concessions provide lodging and dining for park tourists, and the golf course operation at the Fort Benjamin Harrison Park. The Toll Bridges Fund collects fees for the construction and improvements of toll bridges. The Toll Roads Fund collects fees for the construction and improvements of toll roads. The

State Lottery Commission manages and controls all activity that deals with the State's lottery, including the game show, the random number generating machines and the various instant winner games. The Malpractice Insurance Authority provides medical malpractice insurance for those who cannot get coverage. The outlook is good for continued self-sufficiency of these operations with little or no support from the General Fund.

The combined operating revenue for the State's Enterprise Funds was \$694.4 million for the fiscal year ended June 30, 2000. This is an 11.67% decrease from fiscal year 1999. The combined cost of sales and operating expenses was \$492.0 million for fiscal year 2000. This is a 10.52% decrease from fiscal year 1999.

The State of Indiana's Internal Service Funds consist of: Institutional Industries, Administration Services Revolving Funds, the State Office Building Commission (a blended component unit), the Recreational Development Commission (a blended component unit), and self-insurance funds. The Institutional Industries Fund is used to account for revenues and expenses incurred in maintaining inmate employment programs. The Department of Administration uses the Administration Services Revolving Funds to account for various services provided to other state agencies. The State Office Building Commission was created as a public body, both corporate and politic, for the issuance of debt for the Indiana Government Center and various correctional facilities. The Recreational Development Commission was created as a public body, both corporate and politic, for the issuance of debt for construction and renovation at various state parks. The self-insurance funds consist of funds used to administer health insurance, disability and death benefit plans for state employees and state police personnel.

Combined operating revenue for the State's Internal Service Funds was \$247.1 million for the fiscal year ended 2000. This is a 13.41% increase over fiscal year 1999. The combined cost of sales and operating expenses for fiscal year 2000 was \$207.1 million. This is a 20.50% increase over fiscal year 1999.

**Fiduciary Operations** - The State of Indiana sponsors eight public employee retirement systems (PERS). They are identified as follows: State Police Pension Fund, 1977 Police Officer and Firefighters' Pension and Disability Fund, Teachers' Retirement Fund, Excise Police and Conservation Enforcement Officers' Retirement Fund, Prosecuting Attorneys' Retirement Fund, Legislators' Retirement System, Judges' Retirement Fund, and Public Employees' Retirement Fund.

**Debt Administration** - The commissions and authorities, some of which are included as component units in the financial reporting entity of the State of Indiana, issue bonds for some of the State's capital needs. All of the bond issues are revenue bonds associated with specific state component units. Total of revenue bonds and notes outstanding, net of amortized discounts, is \$5.20 billion at June 30, 2000.

**Cash Management** - Cash temporarily idle during the year was invested in money market accounts, certificates of deposit, obligations of the U.S. Treasury, and repurchase agreements. The pension trust funds' portfolios include other investments as outlined in Note I(C)(1) in the notes to the financial statements. The average yield on investments, except for the pension trust funds, was 5.84%.

The State's investment policy is to minimize credit and market risks while maintaining sufficient liquidity and earning a competitive yield on its portfolio. Deposits are insured by federal and state depository insurance.

**Risk Management** - All of the risks associated with the items listed below are entirely assumed by the State of Indiana.

- 1) Unemployment Compensation Benefit Claims for state employees.
- 2) Workers' Compensation Benefit Claims for state employees.
- 3) Tort claims filed against the state.
- 4) Medical Malpractice claims filed against state hospitals.
- 5) Accidents caused by state motor vehicles.
- 6) State owned real property, including public buildings.
- 7) Certain employee health and death benefits.

The State, through the Department of Personnel and other agencies, conducts various types of risk programs for state employees designated to encourage state employees to live healthy and productive lifestyles. Some of the programs offered are:

- 1) Cardiopulmonary Resuscitation Training.
- 2) Better Nutrition.
- 3) Safety Training.
- 4) Disaster Preparedness Training.
- 5) Defensive Driving.
- 6) Mammogram Availability.
- 7) Employee Assistance Program.

**Independent Audit** - State statute requires an annual audit by the Indiana State Board of Accounts. The Board is considered by federal and state government to be independent auditors. The Auditor's report on the general purpose financial statements and combining and individual fund statements and schedules is included in the financial section of the statewide Single Audit Report of the State of Indiana.

**Certificate of Achievement Award** - The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Indiana for its comprehensive annual financial report for the fiscal year ended June 30, 1999. This was the seventh consecutive year that the State of Indiana has achieved this prestigious award.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

**Acknowledgments** - We acknowledge the cooperation and assistance of all state agencies in the preparation of this report.

Sincerely,

Handwritten signature of Connie K. Nass in black ink.

Connie K. Nass  
Auditor of State  
State of Indiana

Handwritten signature of Betty Cockrum in black ink.

Betty Cockrum  
Director  
State Budget Agency